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SIPDIS

SENSITIVE

DOE FOR GEORGE PERSON; STATE ALSO FOR EEB AND NEA/I

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [IZ](#)

SUBJECT: Iraq: Cabinet Approves Formation of National Oil Company

Sensitive but unclassified; please protect accordingly.

¶1. (SBU) The Iraqi Council of Ministers (the Cabinet) on Tuesday, July 28 approved draft legislation to re-establish the Iraq National Oil Company (INOC). That proposal will now be transmitted to the Council of Representatives (COR, the Iraqi Parliament) for consideration. Vice Chairman of the COR Oil and Gas Committee Dr. Abdul-Hadi Al-Hassani told ECONOFF on July 29 that while he was aware of the bill, his committee has not yet received a copy of the draft legislation. The COR concluded its most recent session on July 28 and is expected to be in recess for the next six weeks during the Muslim period of Ramadan. The COR has announced its intention to focus on electoral reforms upon its return, which could further delay consideration of the INOC law.

¶2. (SBU) Comment: The INOC legislation is one of four key pieces of pending oil sector reform laws. The others are the Hydrocarbons Framework Law, the Ministry of Oil reform law, and the Revenue Sharing Law. The INOC legislation would re-establish the national oil company (disbanded in 1987), and also begin the process (jointly with the Ministry of Oil reform law) of separating oil production from regulation of the oil sector, both of which are currently conducted under the aegis of the MoO. The INOC bill is a necessary and welcome step towards modernization of the Iraqi petroleum sector - one the Embassy has long supported. Also of note are comments attributed to Thamir al-Ghadhban, head of Prime Minister Nouri al-Maliki's council of advisors, who said that the draft legislation does not specify which oil fields will be produced by INOC. He said that the Federal Oil and Gas Committee would determine the disposition of the fields. The lack of field allocation to INOC could become an important bridging measure between the central government and the KRG on the annexes in the Hydrocarbon Framework Law. The KRG has consistently maintained that no fields should be allocated directly to INOC and that fields should be auctioned off. Under the draft legislation, the proposed Federal Oil and Gas Committee (the experts charged with creating the overall strategy for hydrocarbons in Iraq) would determine disposition of the fields. Such an approach could remove KRG complaints against the annexes, potentially easing passage of the Hydrocarbons Framework Law. End comment.

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